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ODP 1684-76

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76-4371

OMB Waiver Letter In ERU File

27 AUG 1976

MEMORANDUM FOR: DDI ADP Control Officer
DDO ADP Control Officer
DDS&T ADP Control Officer

FROM : Clifford D. May, Jr.
Director of Data Processing

SUBJECT : Guidelines for Application of OMB Circular
A-76 to Government ADP Requirements

STATINTL

1. The Agency has received a draft of subject guidelines and action to develop a response has been delegated to the Office of Data Processing. You are requested to furnish such comments as you feel are appropriate to include in the Agency's response to [] ODP/MS, x4011, by 7 September 1976.

2. To facilitate your review and comment, we have attached two sets of the following information:

Tab A - Highlights of OMB Circular A-76 and OBM's Draft Memorandum of Transmittal to OMB Circular No. A-76, dated 10 August 1976

Tab B - OMB Memorandum of 10 August 1976 and Attachment

Tab C - Transmittal Memorandum No. 1 to OMB Circular A-76, Revised, and Attachments

STATINTL

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Clifford D. May, Jr.

Atts

cc: A/EXO/DDA
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27 August 1976

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ODP

Highlights of OMB Circular A-76 and OMB's Draft Memorandum of Transmittal to OMB Circular No. A-76, dated 10 August 1976

Background

- Circular A-76 was issued in March 1976.
- It establishes a policy for the Government to obtain services from private suppliers rather than to provide services to itself.
- There is virtually no limit to the range of services-- from a government guard to, presumably, medical services, training services, complex technological projects, etc.
- ADP service is included.
- The policy has met with very limited success, particularly in complex data processing services. These services have continued to grow in the Federal Government.
- Renting or buying equipment and having private contractors operate the equipment is not considered responsive to the policy. The policy suggests that the Government only have enough technicians to establish the service requirements and to monitor the performance of the contractor. The type of equipment or programs for providing the service are considered beyond the purview of the Government.
- Contracts for ADP services are not to be used to escape ceilings on personnel. The clear implication is that present ceilings will be reduced as contracting out is accomplished.
- Exceptions to the policy are allowed, if fully reviewed and documented, for such situations as:
 - o Commercial services would disrupt or delay accomplishment of mission. The fact that activities are classified or related to mission are not adequate reason for exception

- Combat support.
- No commercial source available.
- Service is available from another Federal Agency.
- Commercial service will cost more. (There are elaborate instructions for making this cost analysis.)

Current Situation

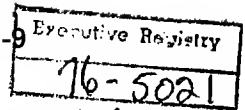
- The Transmittal Memorandum to Circular No. A-76 provides specific guidance to step up the action on contracting for ADP services.
- This guidance requires:
 - Revision of Agency instructions and directives for policy enforcement.
 - Review of new ADP service requirements for compliance.
 - Preparation and submission to OMB of annual multi-year ADP plans detailing actions, schedules, etc., for increasing reliance on private sector.
 - Development of a program with milestones and targets for achieving greater reliance on commercial services within 90 days.
 - Full justification and/or detailed cost studies for exceptions to contracting out. Cost studies require competitive bids for all service requirements and would be based on the assumption that Agency-owned equipment will be disposed of for its fair market value. More cost study guidelines will be forthcoming from OMB.
 - A complete review of all on-going ADP activities by 30 September 1977 to determine if Government performance of the service is justified and to develop plans for conversion to commercial ADP services, including plans for displaced personnel.
- The subject of contracting for all services has hit the newspapers and government unions are taking issue with the policy.



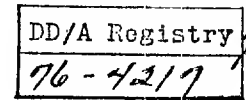
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OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OFFICE OF FEDERAL
PROCUREMENT POLICY

August 10, 1976



rec'd 20 Aug



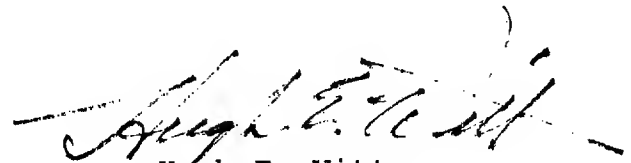
TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Guidelines for Application of OMB Circular A-76
to Government ADP Requirements

In our efforts to improve the implementation of OMB Circular A-76, "Policies for Acquiring Commercial or Industrial Products and Services for Government Use," data processing has been identified as an area in which there is extensive Government involvement in providing a service that is commercially available. It is also one of several functional areas in which application of the policy and requirements of the Circular is difficult, and supplemental guidance is needed to facilitate agency implementation efforts.

Consequently, the attached draft of a Transmittal Memorandum to Circular A-76 has been prepared, with the assistance of a small interagency task group, to provide guidelines for application of this policy to Government ADP requirements. The purpose of this issuance is to move Government practice toward greater use of commercial ADP services, in lieu of Government ownership and operation of ADP facilities.

Please review this draft Transmittal Memorandum and give us your comments and recommendations by September 15, 1976.


Hugh E. Witt
Administrator

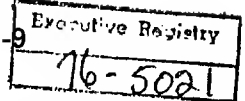
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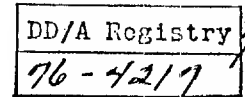
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TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

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Hugh E. Witt
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Administrator

Attachment

DRAFT

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

CIRCULAR NO. A-76
Transmittal Memorandum '6.

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Government Reliance on Commercial Services to Meet
Automatic Data Processing Requirements

1. Purpose. This memorandum provides guidance for executive agencies in meeting their requirements for general purpose data processing services in accordance with the Government's general policy of reliance on the private sector for its needs, as set forth in Office of Management and Budget (OMB) Circular No. A-76, Policies for Acquiring Commercial or Industrial Products and Services for Government Use.

2. Authority and Scope. This Transmittal Memorandum is issued under the authority granted to the Office of Federal Procurement Policy by Public Law 93-400 to monitor and revise "policies, regulations, procedures, and forms relating to reliance by the Federal Government on the private sector to provide needed property and services" (41 U.S.C. 405). It is applicable to all general purpose data processing activities operated and managed by executive agencies that provide services that are obtainable from a private source, as defined in Circular No. A-76.

3. Background. It is the longstanding policy of the Federal Government to rely on the private enterprise system to satisfy its needs for products and services, except in those specific cases where it is clearly demonstrated to be in the National interest for an agency to provide a product or service for its own use. In the area of data processing, agencies have generally purchased or leased equipment and facilities to provide their automatic data processing (ADP) services. In this approach, the nature and degree of reliance on the private sector is distinctly different from acquisition of the needed service directly from a private source.

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An agency that procures facilities instead of services generally maintains a staff with the expertise necessary to perform system design, software development, operation, maintenance, and logistic support. The service approach, which shifts the agency role from performance to management of the ADP function, does not eliminate the need for in-house expertise, but establishes it at the level necessary to prepare service performance specifications and to monitor the performance of commercial services. Under the policy of Circular No. A-76, direct procurement of services, with all the associated functions being performed in the private sector, is the preferred alternative for meeting data processing requirements.

4. Policy. Consistent with the Government's general policy of reliance on the private sector, agencies will obtain ADP services from competitive commercial sources in preference to direct operation of in-house activities, except as provided in paragraph 5 of Circular No. A-76. All Government ADP activities that meet the Circular No. A-76 definition of a commercial or industrial activity are subject to the requirements of the Circular, including a "new start" review for initiation, expansion, upgrade, replacement, or modernization. Current agency ADP operations that cannot be justified under the criteria specified in Circular No. A-76 and this Transmittal Memorandum shall be terminated in a planned and appropriate manner,

5. Planning and Management Guidelines. Each agency will initiate a positive action program to ensure that the policy and requirements of this Transmittal Memorandum are fully and effectively implemented. This program will include the following elements:

a. Review (and revision as necessary) of all agency instructions and directives related to the acquisition of ADP support to identify and incorporate Circular No. A-76 requirements with emphasis on the application of this policy early in the ADP system planning process.

b. Maximum emphasis on "new starts" to avoid capital investment and financial commitments for new, expanded, or modernized facilities for ADP activities that have not been reviewed and justified under Circular No. A-76.

(No. A-76)

c. Preparation of a multiyear plan, to be included in the Spring ADP Plan submitted annually to OMB, beginning with the 1977 submission. This plan should project new and continuing ADP requirements, and include a schedule of actions that will achieve greater reliance on the private sector for ADP services. Where appropriate, agencies should set goals and make use of Management by Objective (MBO) methodology to increase reliance on the private sector. 7

d. Development of a program outline for achieving greater reliance on commercial services, with milestones and specific targets where appropriate, for submission to OMB within ninety days from the date of issuance of this Transmittal Memorandum.

6. Acquisition Guidelines. Agency policies and procedures for acquiring ADP hardware, software, and services must reflect the policy of Circular No. A-76 and provide for the efficient procurement of commercial ADP services. As a minimum, the following guidelines will be implemented immediately:

a. Government ADP requirements normally will be expressed in terms of the services to be performed, rather than the equipment and software to be used in performing these services. The statement of requirements should allow the contractor maximum flexibility in the type of equipment and personnel used, as long as satisfactory services are provided.

b. Agency requests to the General Services Administration (GSA) for delegation of procurement authority for acquisition of ADP equipment to be operated by the agency will include a specific statement indicating that the proposed acquisition has been reviewed and (approved) under the provisions of Circular No. A-76, or an explanation of why the Circular does not apply. 84
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c. Studies to determine whether a commercial or industrial ADP activity can be justified on the basis of cost should be limited to situations where there is reason to assume that in-house costs will be significantly less than competitive commercial prices. When cost studies are made they will include all the cost elements specified in Circular No. A-76. The cost differential favoring reliance on commercial sources will reflect the possibility of early obsolescence and the uncertainty of requirements which are

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characteristic of ADP operations. This differential (which Circular No. A-76 specifies should normally be at least 10% for any new start) should be established for each cost study at a level that is appropriate for the degree of risk and uncertainty involved in Government operation of that particular activity. In the case of ADP activities, this differential can be substantially more than 10%.

d. In the preparation of a cost comparison, particular attention must be given to the following areas to ensure an equitable and accurate result.

(1) Determination of a valid commercial cost figure presents a serious problem -- generally this requires solicitation of competitive bids for the required services. Commercial firms have indicated a willingness to provide cost or price proposals if they are assured that an objective cost study will be made.

"What's serious" about it?

(2) The Government and commercial cost estimates must be based on equivalent services.

(3) Fair market value of equipment and facilities used in existing Government ADP activities, which would become excess if the service were obtained commercially, must be determined and included in the study as a cost of Government performance.

(4) Determination of the proper residual or salvage value of equipment that the agency proposes to acquire, in order to ensure the correct depreciation cost in the cost comparison.

e. More comprehensive guidelines are being developed to assist agencies in calculating both the Government and commercial costs of providing ADP services. In the interim, guidance available in Circular No. A-76 and this Memorandum will be used.

7. Termination Guidelines. All agency ADP activities should be reviewed by September 30, 1977 to determine whether Government performance is justified under the exception criteria of Circular No. A-76. When a Government commercial or industrial activity is to be terminated or reduced, the action must be carefully planned to ensure transition without the disruption of vital services. Agency planning should include:

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a. All reasonable consideration for Government employees displaced by termination or curtailment of Government ADP activities, including a phased reduction of operations to facilitate reassignment and reduction by attrition.

b. Careful coordination of contract services, including a period of overlap, when necessary, to avoid disruption of the agency mission.

8. Inquiries. Inquiries concerning this Transmittal Memorandum may be submitted to the Office of Management and Budget, Office of Federal Procurement Policy, 726 Jackson Place, N.W., Washington, D.C. 20503, telephone 395-3327 (IDS Code 103).

James T. Lynn
Director

(No. A-76)